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**COLYELL COMMUNITY WATER
ASSOCIATION, INC.**

DECEMBER 31, 2009

LIVINGSTON, LOUISIANA

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 10/27/10

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September 15, 2010

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Colyell Community Water Association, Inc.
Livingston, Louisiana

We have audited the accompanying Statement of Financial Position of Colyell Community Water Association, Inc. (a nonprofit organization) as of December 31, 2009 and the related Statements of Activities and Cash Flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2010, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Association taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Respectfully submitted,

Harold A. Bougeois, CPA

COLYELL COMMUNITY WATER ASSOCIATION, INC.

STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2009

ASSETS

Current Assets:

Cash	\$ 364,602
Accounts Receivable, Net of Allowance for Uncollectible Accounts of \$7,320	43,985
Unbilled Sales	13,750
Inventory	1,200
Prepaid Expenses	7,288
	<hr/>
	430,825

Restricted Assets:

Cash -Sinking and Reserve Funds	24,366
Receivable - Louisiana Department of Health and Hospitals	41,172
	<hr/>
	65,538

Total Current Assets	496,363
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Noncurrent Assets:

Deferred Loan Issuance Costs	12,655
Land and Construction in Progress	764,051
Other Capital Assets, at Cost (Net of Accumulated Depreciation of \$623,832)	1,086,599
	<hr/>
Total Noncurrent Assets	1,863,305

Total Assets	<hr/> <hr/> \$ 2,359,668
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The accompanying notes are an integral part of this statement.

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts Payable	\$ 60,399
Retainage Payable	60,358
Payroll Taxes Payable	634
Current Portion of Long -Term Debt	<u>67,300</u>
Total Current Liabilities	188,691

Noncurrent Liabilities:

Members' Deposits	49,646
Long -Term Debt	<u>1,348,204</u>
Total Noncurrent Liabilities	<u>1,397,850</u>
Total Liabilities	1,586,541

Net Assets:

Unrestricted	<u>773,127</u>
Total Net Assets	<u>773,127</u>
Total Liabilities and Net Assets	<u><u>\$ 2,359,668</u></u>

COLYELL COMMUNITY WATER ASSOCIATION, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Operating Income:			
Charges for Services	\$ 302,594	\$ -	\$ 302,594
Delinquent Charges	19,502	-	19,502
Total Operating Income	322,096	-	322,096
Operating Expenses:			
Salaries	64,389	-	64,389
Payroll Taxes	5,754	-	5,754
Bad Debt Expense	5,722	-	5,722
Depreciation	54,435	-	54,435
Dues and Subscriptions	3,009	-	3,009
Fuel	1,405	-	1,405
Insurance	11,488	-	11,488
Miscellaneous	2,071	-	2,071
Office Expenses	4,479	-	4,479
Postage	3,661	-	3,661
Printing and Advertising	909	-	909
Professional Fees	5,750	-	5,750
Repairs and Maintenance	21,340	-	21,340
Supplies	21,068	-	21,068
Telephone and Utilities	16,596	-	16,596
Total Operating Expenses	222,076	-	222,076
Operating Income	100,020	-	100,020
Nonoperating Revenues and Expenses:			
Interest Income	55	-	55
Interest Expense and Fees	(29,761)	-	(29,761)
Total Nonoperating Revenue (Expenses)	(29,706)	-	(29,706)
Change in Net Assets	70,314	-	70,314
Net Assets, Beginning of Year, As Restated	702,813	-	702,813
Net Assets, End of Year	\$ 773,127	\$ -	\$ 773,127

The accompanying notes are in integral part of this statement

COLYELL COMMUNITY WATER ASSOCIATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Administrative Expenses</u>	<u>Operating Expenses</u>	<u>Total</u>
Salaries	\$ 64,389	\$ -	\$ 64,389
Payroll Taxes	5,754	-	5,754
Bad Debt Expense	5,722	-	5,722
Depreciation	-	54,435	54,435
Dues and Subscriptions	3,009	-	3,009
Fuel	1,405	-	1,405
Insurance	11,488	-	11,488
Miscellaneous	2,071	-	2,071
Office Expenses	4,479	-	4,479
Postage	3,661	-	3,661
Printing and Advertising	909	-	909
Professional Fees	5,750	-	5,750
Repairs and Maintenance	-	21,340	21,340
Supplies	-	21,068	21,068
Telephone and Utilities	-	16,596	16,596
Total Functional Expenses	<u>\$ 108,637</u>	<u>\$ 113,439</u>	<u>\$ 222,076</u>

The accompanying notes are in integral part of this statement

COLYELL COMMUNITY WATER ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2009

Cash Flows From Operating Activities:

Change in Net Assets	\$ 70,314
Adjustments to Reconcile Change in Net Assets to Net	
Cash Provided by Operating Activities:	
Provision for Bad Debts	5,754
Depreciation	54,435
Changes in Current Assets and Liabilities:	
(Increase) Decrease in Receivables	(58,613)
(Increase) Decrease in Unbilled Sales	(714)
(Increase) Decrease in Prepaid Expense	147
Increase (Decrease) in Accounts Payable	57,642
Increase (Decrease) in Retainages	60,358
Increase (Decrease) in Other Liabilities	<u>(972)</u>
Net Cash Provided by Operating Activities	188,351

Cash Flows From Capital and Related Financing Activities:

Acquisition and Construction of Capital Assets	(747,018)
Net Receipts from Customer Deposits	2,039
Principal Paid on Debt	(42,300)
Proceeds from the Issuance of Debt	685,004
Increase in Deferred Loan Issuance Costs	<u>(12,655)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(114,930)</u>

Net Increase in Cash and Cash Equivalents	73,421
Cash and Cash Equivalents - Beginning of Year	<u>315,547</u>
Cash and Cash Equivalents - End of Year	<u>\$ 388,968</u>

The accompanying notes are an integral part of this statement.

COLYELL COMMUNITY WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2009

Note 1 - Summary of Significant Accounting Policies -

Colyell Community Water Association, Inc. ("the Association") was incorporated on May 21, 1973, as a nonprofit corporation. The Association was organized to provide water distribution services to residents of the Colyell Community in Livingston Parish.

A. Basis of Accounting

The financial statements of Colyell Community Water Association, Inc. are maintained on an accrual basis of accounting. This method recognizes revenues when earned, and expenses when incurred.

B. Basis of Presentation

The Association is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, as applicable. At December 31, 2009, all of the Association's net assets are considered unrestricted.

C. Accounts Receivable

The Association's billing cycle may extend into the subsequent year. If that occurs, accounts receivable at December 31, 2009 have been adjusted to allow for a year end cut-off date and are recorded as unbilled sales.

D. Income Taxes

The Association files income tax returns in the U. S. federal jurisdiction. The Association is a non-profit association formed under Section 501(c)12 of the Internal Revenue Code. With few exceptions, the Association is no longer subject to federal income tax examinations by tax authorities for years before 2006. Any interest and penalties assessed by income taxing authorities, if any, are not significant and would be included in general and administrative expenses in these financial statements.

COLYELL COMMUNITY WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009

E. Plant and Equipment

Plant and equipment are stated at cost and do not purport to represent replacement or realizable values. The cost of depreciable property, plant and equipment is charged to earnings over the estimated useful lives of the assets. Expenditures for maintenance and repairs are charged to expenses as incurred; expenditures for renewals and betterments of \$500 or more are generally capitalized. When properties are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in revenue. Depreciation of all depreciable property, plant and equipment is computed using the straight-line method over the following lives:

<u>Asset</u>	<u>Estimated Useful Life</u>
Water System	10 - 40 years
Equipment	5 - 10 years
Land	N/A

F. Compensated Absences

Because of the immateriality of estimating compensated absences, the water system has not attempted to accrue a liability for them.

G. Allowance for Doubtful Accounts

Management has experienced extremely low bad debts over the past several years, therefore, an allowance for doubtful accounts of approximately 25% of amounts over 30 days is deemed adequate by management.

H. Statement of Cash Flows

For the purposes of the statement of cash flows, Colyell Community Water Association, Inc. considers all bank accounts and certificates of deposit with an initial maturity of ninety days or less when purchased to be cash equivalents for purposes of reporting cash flows.

I. Interest Capitalization

Interest costs are capitalized during construction period when incurred on debt where the proceeds were used to finance construction costs. For the year ending December 31, 2009, \$11,656 of interest fees were capitalized.

COLYELL COMMUNITY WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009

J. Concentration of Credit Risk

In the normal course of business, the Association extends unsecured credit to its customers located in Livingston Parish in the State of Louisiana.

One bank account had deposits of \$144,075 at December 31, 2009 which was in excess of the FDIC Insurance limit of \$250,000.

K. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

L. Subsequent Events

The Association evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through September 15, 2010, the date which the financial statements were available to be issued.

Note 2 - Property and Equipment -

A summary of the changes in property and equipment follows:

	<u>Beginning Balance 12/31/08</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance 12/31/09</u>
Capital Assets not Being Depreciated:				
Land	\$ 12,458	\$ -	\$ -	\$ 12,458
Construction in Progress	<u>4,575</u>	<u>747,018</u>	<u>-</u>	<u>751,593</u>
Total Capital Assets not Being Depreciated	17,033	747,018	-	764,051
Capital Assets Being Depreciated:				
Systems and Machinery and Equipment	1,710,431	-	-	1,710,431

(CONTINUED)

COLYELL COMMUNITY WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009

	<u>Beginning Balance 12/31/08</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance 12/31/09</u>
Less: Accumulated Depreciation	<u>569,397</u>	<u>54,435</u>	<u>-</u>	<u>623,832</u>
Total Capital Assets Being Depreciated, Net	<u>1,141,034</u>	<u>54,435</u>	<u>-</u>	<u>1,086,599</u>
Total Capital Assets, Net	<u>\$1,158,067</u>	<u>\$692,583</u>	<u>\$ -</u>	<u>\$1,850,650</u>

Depreciation expense for the year ended December 31, 2009 was \$54,435.

Construction Commitments:

At December 31, 2009, the Association has one active construction project in process. The project is for the expansion of the water system by approximately 16,000 feet. The project is being funded by a "Drinking Water Revolving Loan" from the Louisiana Department of Health and Hospitals and is for an amount not to exceed \$900,000.

<u>Project</u>	<u>Estimated Costs</u>	<u>Spent-To- December 31, 2009</u>	<u>Remaining Commitment</u>
Expansion of Water System	<u>\$900,000</u>	<u>\$751,593</u>	<u>\$148,407</u>

Note 3 - Notes Payable -

The Association has entered into two loan agreements with the State of Louisiana for construction costs and upgrades to the Association's water system. The Association has pledged revenues derived from these assets to pay the debt service of these loans. On June 27, 2002, the Association borrowed \$948,600 and on March 1, 2009 entered into a loan agreement not to exceed \$900,000.

<u>Description/Purpose</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Balance December 31, 2009</u>
2002 Expansion of Water System	<u>\$948,600</u>	<u>3.45%</u>	<u>July 1, 2023</u>	<u>\$734,100</u>
*2009 Expansion of Water System	<u>\$900,000</u>	<u>3.45%</u>	<u>July 1, 2028</u>	<u>\$681,404</u>

*At December 31, 2009, the Association has not fully drawn down on all available proceeds as construction remains in progress at this date.

COLYELL COMMUNITY WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009

Changes in Long-Term Debt: Long-term debt liability activity for the year ended December 31, 2009 is as follows:

	<u>Balance</u> <u>December 31, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December 31, 2009</u>	<u>Due Within</u> <u>One Year</u>
2002 Loan	\$ 772,800	\$ -	\$ 38,700	\$ 734,100	\$ 40,300
2009 Loan	-	<u>686,404</u>	<u>5,000</u>	<u>681,404</u>	<u>27,000</u>
	<u>\$ 772,800</u>	<u>\$ 686,404</u>	<u>\$ 43,700</u>	<u>\$1,415,504</u>	<u>\$ 67,300</u>

The debt service requirements to maturity for the 2002 DHH loan are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>.5%</u> <u>Administrative</u> <u>Fee</u>	<u>Total</u>
2010	\$ 40,300	\$ 24,631	\$ 3,570	\$ 68,501
2011	41,900	23,213	3,364	68,477
2012	43,500	21,740	3,151	68,391
2013	45,200	20,210	2,929	68,339
2014	47,000	18,620	2,699	68,319
2015 - 2019	264,500	66,939	9,701	341,140
2020 - 2023	<u>251,700</u>	<u>17,786</u>	<u>2,578</u>	<u>272,064</u>
	<u>\$ 734,100</u>	<u>\$ 193,139</u>	<u>\$ 27,992</u>	<u>\$ 955,231</u>

The estimated debt service requirements to maturity for the 2009 DHH loan are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal*</u>	<u>Interest</u>	<u>.5%</u> <u>Administrative</u> <u>Fee</u>	<u>Total</u>
2010	\$ 27,000	\$ 25,000	\$ 4,500	\$ 56,500
2011	34,000	36,000	4,300	74,300
2012	35,000	34,200	4,200	73,400
2013	37,000	33,000	4,000	74,000
2014	38,000	31,300	3,800	73,100
2015 - 2019	215,000	132,500	17,500	365,000
2020 - 2024	260,000	86,700	10,900	357,600
2025 - 2029	<u>249,000</u>	<u>30,000</u>	<u>7,200</u>	<u>286,200</u>
	<u>\$ 895,000</u>	<u>\$ 408,700</u>	<u>\$ 56,400</u>	<u>\$1,360,100</u>

*Upon the loan being fully funded.

COLYELL COMMUNITY WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009

Total debt service requirements to maturity at December 31, 2009 is as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Administrative Fee</u>	<u>Total</u>
2010	\$ 67,300	\$ 49,631	\$ 8,070	\$ 125,001
2011	75,900	59,213	7,664	142,777
2012	78,500	55,940	7,351	141,791
2013	82,200	53,210	6,929	142,339
2014	85,000	49,920	6,499	141,419
2015 - 2019	479,500	199,439	27,201	706,140
2020 - 2024	511,700	104,486	13,478	629,664
2025 - 2029	<u>249,000</u>	<u>30,000</u>	<u>7,200</u>	<u>286,200</u>
	<u>\$1,629,100</u>	<u>\$ 601,839</u>	<u>\$ 84,392</u>	<u>\$2,315,331</u>

Compliance with Loan Covenants:

The Association has failed to comply with the loan covenants in two instances:

1. The Association has failed to complete its first audited financial statements within the 180 days time requirement.
2. The Association has failed to set up individual debt service accounts as outlined in the 2009 loan agreement and has not yet begun to fund these accounts as required by the loan agreement.

Note 4 - Members' Deposits -

Members' deposits are paid by customers upon application for utility services and are returnable to them upon termination of service. Receipts from member deposits are deposited in the Operating Fund and refunds of deposits on termination of services are made from the same account.

At December 31, 2009, Members' Deposits amounted to \$49,646. The Association has not deposited these funds in a separate restricted bank account.

Note 5 - Litigation -

At December 31, 2009, there is no litigation pending against the Association.

COLYELL COMMUNITY WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009

Note 6 - Compensated Absences, Pension Plan, and Other Postemployment Benefits -

At December 31, 2009, the Association has no plan or provision for compensated absences, pension plan or other post employment benefits.

Note 7 - Risk Management -

The Association is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets and errors and omissions. To handle such risk of loss, the Association maintains commercial liability and surety bond insurance policies. No claims were paid on any of the policies during the past three years with the exception of Hurricane Gustav reimbursement in 2008 of \$3,518. This loss did not exceed the policy coverage amounts. There were no significant reductions in insurance coverage during the year ending December 31, 2009.

Note 8 - Compensation Paid to Board Members -

No compensation was paid to the following Board Members who served during the year 2009:

Hulon Taylor
Charles McCon
Canton McCon
Daniel M. Piper
Dennis Piper
Luvawn E. Andrews
Kenny Morrison
Canton Toby McCon

Note 9 - Water Rate Schedule -

	<u>Customers</u>	<u>Gallons</u>	<u>Rate</u>
Residential	981	0 - 2,000 Gallons	\$15
		Over 2,000 Gallons	\$2/1,000 gallon
Commercial	<u>11</u>	0 - 2,000 Gallons	\$24
		Over 2,000 Gallons	\$2/\$1,000 gallon
	<u>992</u>		
Number of Customers at December 31, 2009			<u>992</u>
Number of Gallons of Water Produced in 2009			<u>94,960,119</u>
Number of Gallons of Water Billed in 2009			<u>87,452,097</u>
Average Cost to Customer per Month in 2009			<u>\$25.42</u>

COLYELL COMMUNITY WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009

Note 10 - Insurance Policies -

<u>Company</u>	<u>Types of Coverage</u>	<u>Policy Period</u>
Louisiana Workers' Compensation Corporation	Workers' Compensation	7/28/09 - 7/28/10
CNA	Surety Bond	3/22/09 - 3/22/10
First Financial Co.	General Liability	11/14/09 - 11/14/10
Farm Bureau	Fire Policy	7/8/09 - 7/8/10
Farm Bureau	Vehicle Policy	11/3/09 - 5/3/10
Farm Bureau	Vehicle Policy	11/13/09 - 5/13/10
Farm Bureau	Equipment Policy	6/18/09 - 6/18/10

Note 11 - Prior Period Adjustments -

In prior years the Association was not required to have an audit. Therefore, during the current year several prior period adjustments were required as follows:

Total Net Assets, as Previously Compiled	\$ 667,556
To Adjust Accounts Receivable at December 31, 2008	25,351
To Correct Unbilled Sales at December 31, 2008	13,036
To Record an Estimated Allowance for Uncollectible Accounts at December 31, 2008	<u>(3,130)</u>
	<u>\$ 702,813</u>

SUPPLEMENTARY INFORMATION

COLYELL COMMUNITY WATER ASSOCIATION, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2009

<u>Federal Grantor/ Pass - Through Grantor/ Program Name</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Federal Expenditures</u>
<u>United States Department of Health and Human Services</u>			
Passed Through Louisiana Department of Health and Hospitals:			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	N/A	<u>\$686,404</u>
Total Expenditures of Federal Awards			<u>\$686,404</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

COLYELL COMMUNITY WATER ASSOCIATION, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2009

Note A - Significant Accounting Policies -

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Colyell Community Water Association, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

See auditor's report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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September 15, 2010

To the Board of Directors
Colyell Community Water Association, Inc.
Livingston, Louisiana

We have audited the financial statements of Colyell Community Water Association, Inc. (a nonprofit organization) as of and for the year ended December 31, 2009, and have issued our report thereon dated September 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of their internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Colyell Community Water Association, Inc.'s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies in internal control over financial reporting (Finding numbers 2009-1 and 2009-2). A significant deficiency, is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Colyell Community Water Association, Inc.
Livingston, Louisiana

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Colyell Community Water Association, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying Schedule of Findings and Questioned Costs as items 2009-3 and 2009-4.

The Association's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Association's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Office of the Legislative Auditor, State of Louisiana, and federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Hannu J. Bourgeois, CPA

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

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September 15, 2010

To the Board of Directors
Colyell Community Water Association, Inc.
Livingston, Louisiana

Compliance

We have audited the compliance of Colyell Community Water Association, Inc. (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. The Association's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Association's management. Our responsibility is to express an opinion on the Association's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Association's compliance with those requirements.

In our opinion, the Association complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2009-4.

Internal Control Over Compliance

Management of the Association is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Association's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of management, the Office of the Legislative Auditor, State of Louisiana, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Hannis J. Bourgeois, M.P.

COLYELL COMMUNITY WATER ASSOCIATION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2009

A. As required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, the following is a summary of the results of our audit:

- Type of report issued on financial statements - unqualified.
- Type of report issued on compliance for major programs - unqualified.
- The results of audit procedures disclosed no material noncompliance in major programs.
- The results of audit procedures disclosed no questioned costs.
- Our audit disclosed no findings which are required to be reported under Section 510(a).
- The following program was tested as Type "A" major programs:

<u>Federal Grantor/ Pass - Through Grantor/ Program Name</u>	<u>CFDA Number</u>
<u>United States Department of Health and Human Services</u> Passed Through Louisiana Department of Health and Hospitals: Capitalization Grants for Drinking Water State Revolving Funds	66.468

- The threshold for distinguishing Types A and B programs was \$300,000
- The Association was not determined to be a low-risk auditee.

COLYELL COMMUNITY WATER ASSOCIATION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2009

B. Findings - Internal Control over Financial Reporting

Finding 2009-1 Lack of Segregated Bank Account for Member Deposits

Because Member Deposits are refundable and should only be used when a member becomes substantially delinquent in paying their water bills and/or the member discontinues service, these deposits should be segregated and not comingled in the operations of the system. At December 31, 2009, the Association has no separate bank account for these deposits which amount to \$49,646.

Recommendation:

We recommend that management establish a separate bank account to account for all Member Deposits. This account would become part of restricted assets and only be used to account for Members' Deposits.

Management's Response:

Management will address this problem by opening a separate bank checking account and will begin funding this account. We cannot fund the entire \$50,000 at once. We will have to begin setting aside some of the water sales deposits to fund this account.

Finding 2009-2 Lack of Daily Deposits

During our audit testing we noted that during the year only two to four bank deposits are being made during each month. This lack of daily or at least more current deposits, lends itself to possible theft and loss.

Recommendation:

We recommend that management make more timely deposits. Best practice dictates daily deposits should be made.

Management's Response:

In management's opinion, it is not necessary to make daily deposits. Making daily deposits causes a hardship on the company in that the closest bank is 20 miles away. Daily deposits would dictate that a lot of very small deposits be made. The office personnel work on a part-time basis and on an as needed basis to curtail company expenses and are paid only for 2 bank deposits per month. The office is not open on a 5 day week but on an as needed part time basis. We will look into making (possibly) weekly deposits.

COLYELL COMMUNITY WATER ASSOCIATION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2009

C. Findings - Compliance and Other Matters

Finding 2009-3 Timely Issuance of Audited Financial Statements

Louisiana Revised Statute 24:517 requires that audited financial statements issued under Government Auditing Standards and/or OMB Circular A-133 be issued within six months of the close of the fiscal year. This was the Association's initial audit and management was unaware of the details required to complete the audit. While management attempted to prepare workpapers in a timely manner, certain items could not be completed until after the required time.

Recommendation:

We recommend management prepare for an audit in a more timely manner and issue the Association's audited financial statements within six months of the close of the fiscal year.

Management's Response:

It is management's response that this is exactly what was done. The required paperwork was hand delivered to your auditing firm. Unfortunately, it sat on someone's desk without being looked at for quite sometime. Delivering documents in a more timely fashion cannot solve this. The auditor handling the audit at that time refused to have any contact with the accountant doing the Compilation. We fail to understand the reasoning behind this.

Finding 2009-4 Loan Covenant Requirements

The 2009 loan with the Louisiana Department of Health and Hospitals has several loan covenant requirements. For 2009, the Association was in noncompliance with two of these covenants.

1. Issuance of Association's audited financial statements within six months of the end of the fiscal year. (See also Finding 2009-3).
2. Establishment of the following bank accounts:
 - a. Construction account to be used to account for all loan proceeds and costs of the project. (This account is established.)
 - b. Water System Revenue Fund account to be used to account for operations of the Water System. (This account is established.)
 - c. 2009 Debt Service Fund account to be used to account for the required monthly payments from operations into this account to be used to pay annual payments of principal and semi-annual payments of interest. This account has yet to be established.

COLYELL COMMUNITY WATER ASSOCIATION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2009

- d. 2009 Debt Service Revenue Fund account to be used to account for the required monthly payments from operations into this account to be used solely for the purpose of paying principal and interest on notes payable from the Debt Service Fund as to which there would otherwise be in default. This fund must be fully funded to \$33,000 within five years from delivery date of loan. This account has yet to be established.
- e. 2009 Capital Additions and Contingencies Fund account to be used to account for the 5% of gross revenues of the system required to be deposited into this account until \$25,000 is accumulated. This account has yet to be established.

Recommendation:

We again recommend as in Finding 2009-3 that management prepare for the annual audit in a more timely manner and issue the Association's audited financial statements within six months of the close of the fiscal year. In addition, we recommend that management establish each of the required bank accounts as called for in the 2009 loan agreement and begin funding each of those accounts in accordance with the loan agreement.

Management's Response:

- a. The construction account already exist - no further action required.
- b. The revenue account already exists - no further action required.
- c. Renamed an existing account to Debt Service Fund - already has some funds in account.
- d. Renamed an existing account to Debt Service Reserve Fund – already has some funds in account.
- e. Renamed an existing account to Capital Addition and Contingencies Fund - already has some funds in account.

COLYELL COMMUNITY WATER ASSOCIATION, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 2009

Internal Control over Financial Reporting

None. Audit for the year ended December 31, 2009 is initial audit.

Compliance and Other Matters

None. Audit for the year ended December 31, 2009 is initial audit.